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ABSTRACT

This handbook informs school personnel and the business community about the opportunities available to assist rural community's efforts in revitalizing their education systems. The handbook's first two sections examine the different funding sources available for school improvement programs and loan eligibility, and discusses the benefits lenders can realize when providing these loans. The third and final section details the components of the Qualified Zone Academy Bonds (QZAB) financing tool covering eligibility criteria, the required business pledges, how to qualify for a QZAB, tax treatments, and benefits to lenders. An example of a QZAB success story is also provided. An addendum lists examples of different community facilities programs. (GR)

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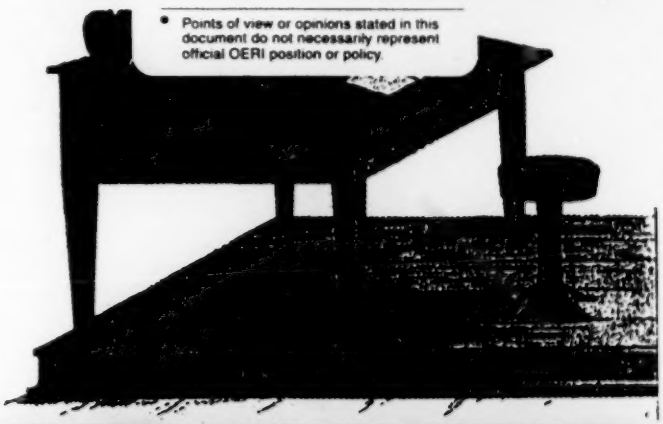

Community Facilities Programs & Organizations Concerned About Rural Education

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The Community Facilities programs of the USDA has financing programs for many educational projects, including public schools, charter schools, private schools, vocational schools, school maintenance buildings and equipment, as well as special education projects.

This handbook is designed to inform school personnel, business leaders and lenders about the opportunities available to assist your community's efforts to revitalize your education systems.

A recent study by the National Education Association indicates that the needs for infrastructure improvements and technology advances over the next ten years will be over $300 billion.

Rural Development expects to play a leading role in providing finances for these improvements in our rural communities. This handbook will help to identify the services offered by the Community Facilities programs, as well as a new program called Qualified Zone Academy Bonds (QZAB's).

If you have any questions or are interested in CP services in your community contact your Rural Development State Office. The location and telephone number for the office in your State can be found at:

www.rurdev.usda.gov/recd_map.html

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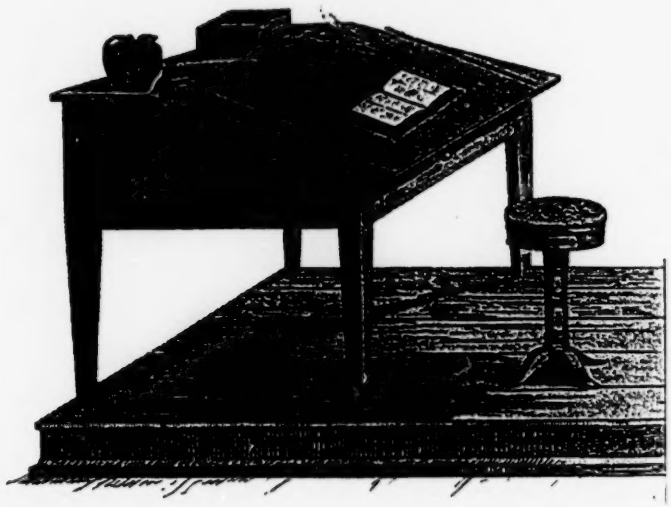
Community Programs



Overview

Rural Development Education Programs

COMMUNITY FACILITIES PROGRAMS:

1. *Three sources of funding:*

   - Guaranteed Loan Program
   - Direct Loan Program
   - Community Facilities Grant Program

2. *Eligibility for all Community Facilities Programs:*

   - The Applicant Organization must be:
     - A Public body,
     - A Nonprofit corporation,
     - A Native American tribe, or
     - A Cooperative.

   - The Facility must be located in a community of less than 20,000 (based on 1990 census). ***All unincorporated areas are eligible.***

Community Facilities Direct Loan Program:

1. This is a direct loan program with subsidized interest rates that provides a source of funds to communities that cannot find financing for their projects on the open market. There are three loan specific interest rates:
   - *Poverty Rate*: 4.5% - based on community median household income (MHI) under 80% of State average (limited to health care purposes).
   - *Intermediate Rate*: 5% - based on community MHI between 80%-100% of State average (all purposes).
   - *Market Rate*: 5.5% - based on community MHI over 100% of State average.

Interest rates offered are adjusted quarterly. All loans are based on fixed interest rates.

2. All applicant organizations must document their inability to obtain credit elsewhere. All will be asked to graduate to other credit if their financial position improves to the point at which they can refinance the direct loan with other credit.

3. Terms are based on a maximum of 40 years, the life of the facility, and/or specific restrictions within each State.

4. The direct loan program can be utilized in conjunction with the CF grant and guaranteed loan programs, as well as to leverage QZAB funds.

This program generally has much more demand than funds available, reducing the likelihood that large education projects can be funded with direct loan funds

Community Facilities Grant Program:

1. *What is the maximum grant?*

Grant assistance may be available for up to 75 percent of project costs. Grant funding limitations are based on population and income, economic feasibility, and availability of funding.

2. *What are the funding priorities?*

Projects are selected based on a priority point system. Projects that receive priority are those that:

- Serve small communities, with the highest priority going to those with a population of 5,000 or less;
- Serve low-income communities, with the highest priority going to those below the poverty line or 60 percent of the State non-metropolitan median household income; and
- Provide health care, public safety, or public and community services.

Community Facilities Grant Program

3. *How are applications processed?*

   An applicant submits documentation to support its eligibility status and availability of funding.

   After determining the funding priority, Rural Development tentatively determines eligibility and asks applicants to assemble and submit a formal application.

While technically grant funds can be used for this program, it's small size ($6,000,000 available nationwide) and the larger size of most education projects will limit the access to Community Programs grants for major education projects.

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Community Facilities Guaranteed Loan Program

1. Eligible lenders are:

   - Banks, savings and loans
   - Mortgage companies
   - Farm credit banks
   - State bond banks
   - Other lenders under Federal/State examination

2. Terms and rates are set by the lender and borrower with a maximum term of 40 years, the useful life of the facility, or in accordance with specific State restrictions.

3. Maximum amount guaranteed is 90 percent. There is a one time fee of 1 percent that can be incorporated into the loan.

4. All nonprofit organizations must demonstrate significant community support, as demonstrated by:

    a. Broad-based board (required for eligibility);

    b. Support from a public body;

    c. Letters of support from community organizations and individuals; and

    d. Monetary contributions from the community and/or borrowing organization.

5. Security and appraisal requirements are determined by the lender. Rural Development will review the application before approving a guarantee request.

The guaranteed loan program can be used as a credit enhancement for lenders participating in the QZAB program.

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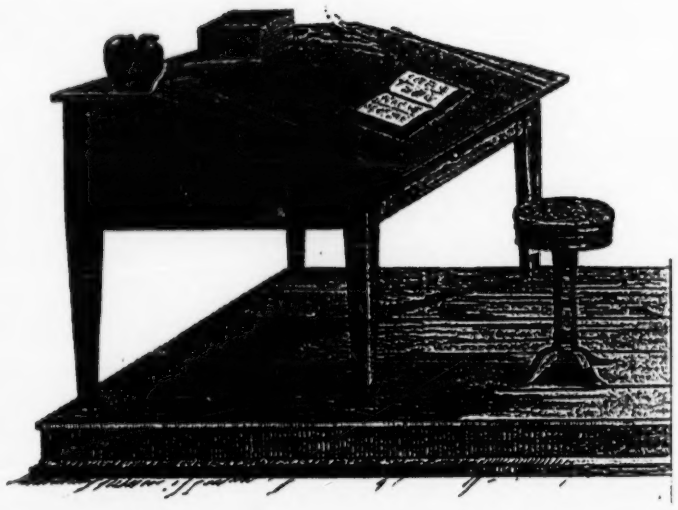
Lender Benefits



Community Facilities Guaranteed Loans

What Can the USDA Guarantee Do For The Lender?

- A guarantee reduces the amount of loan loss reserves required.
- The guaranteed loan does not count against lending limits.
- Only the unguaranteed portion of the loan is subject to FDIC examination.
- The guaranteed portion of the loan does not count against the loan to value ratio when determining adequate security for a project.
- The FDIC does not require a full industry - standard appraisal for projects under $250,000. The guaranteed portion of a loan does not count against this limit.
- Rural Development only charges a 1percent, one time guaranteed loan fee, which can be passed through the loan.
- There are no maximum loan limits.
- Prepayment penalties are allowed.
- Financial reporting requirements are determined by the lender.

What Can the USDA Guarantee Do For The Lender?

- State bond banks and State bond pools are eligible lenders.

- Security is determined by the lender and approved by Rural Development.

FDIC

The Federal Deposit Insurance Corporation provides oversight for all member-lending institutions. Many of the limits and standards with which members must comply do not apply when loan guarantees by the U. S. Government are attached. Examples include:

- The guarantee reduces the amount of loan loss reserves required;
- The guaranteed portion does not count against lending limits;
- Only the unguaranteed portion of a loan is subject to FDIC examination;
- The guaranteed portion does not count against the loan to value ratio when determining adequate security for a project;
- The FDIC does not require a full industry standard appraisal for projects under $250,000. The guaranteed portion of a loan does not count against this limit. ***EXAMPLE:***

Loan Amount:	$2,000,000
Guaranteed %	90%
Unguaranteed Amount	$200,000

In this case, the FDIC would not require a full industry standard appraisal.

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Security

Community Facilities programs have traditionally financed specialty projects. Health care, public service, recreational, transportation, and public safety projects do not offer the hard security required in a typical credit market. Therefore, we secure our projects with a "security package", constructed of several items including the following:

- Real estate;
- Machinery & equipment;
- Accounts receivable;
- Assured income;
- Contracts;
- Significant community support.

We are more than willing to guarantee a loan with this kind of security package. The final security package is constructed to *best ensure repayment of the loan. If the real estate appraised value is less than the loan amount, we are willing to guarantee a loan based upon sound security, repayment ability and reasonable financial projections.*

Combined Loans

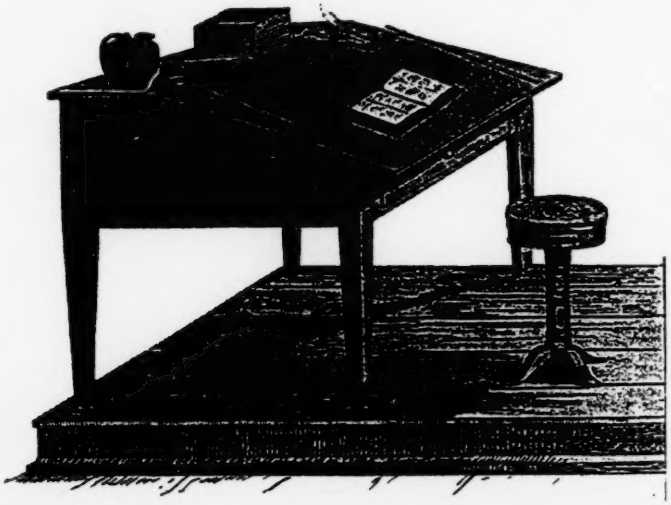
Community Facilities programs include guaranteed loans, direct loans, and CF grants. All three can be combined on the same project* depending on the financial strength of the organization and the project. Some of the advantages to lenders by utilizing the direct and grant programs with the guaranteed loan program are:

- The direct loan portion can be subordinate to the guaranteed loan.
- The direct loan and grant programs can be used to buy down the overall interest rate on a project when cash flow is a concern.
- There is a reduction in overall risk to the lender.

In all cases where a combined loan is proposed, the lender should be the lead on the project. ***The direct and grant programs should be used only to the degree to which the project will comfortably cash flow.*** In addition, Rural Development will work with individual lenders to avoid duplication of project documentation and processing steps.

** Combination loans can be made for all eligible purposes except recreation loans, which are only eligible under the guaranteed loan program!*

Qualified Zone



Academy Bonds

Qualified Zone Academy Bonds

Qualified Zone Academy Bonds (QZAB) are a new financing tool approved by Congress in 1997 and administered by the Department of Education. The essence of these bonds is that:

- They are interest free bonds that can be issued through State, or local governments;
- They encourage partnerships between schools and the local business community; and
- They provide States and local school boards with a great deal of flexibility in meeting educational needs.

Eligible Purposes:

- Rehabilitating or repairing the public school facility in which the qualified zone academy is established;
- Providing equipment for use at a qualified zone academy;
- Developing course materials for education to be provided at the academy; and
- Training teachers and other school personnel in an academy.

QZAB funds cannot be used for new construction projects.

Eligible Schools or Programs

QZAB's may be used on behalf of schools or programs that meet the following criteria:

- They are located in an empowerment zone or enterprise community (EZ/EC); or
- There is a reasonable expectation that 35% of their students will be eligible for free or reduced-cost lunches under the National School Lunch Act.

In addition the following requirements must be met:

1. The education program must be designed in cooperation with business to develop creative partnerships between schools and private entities.

2. A private contribution of 10 percent must be certified, and

3. The school's education plan must be approved by its school district, and its students must be subject to the same standards and assessments as other students in the district.

Eligible Lenders:

- A bank;
- An insurance company; or
- A corporation actively in the business of lending money

Required Private Pledges

Each project utilizing this program is required to have a minimum match or pledge from private entities, such as local businesses or charitable organizations, of 10 percent of the gross proceeds of the QZAB. For this purpose the following constitute eligible contributions:

- Equipment for use in the school (including state-of-the-art technology and vocational equipment);

- Technical assistance in developing curriculum or in training teachers in order to promote appropriate market-driven technology;

- Internships, field trips, or other educational opportunities outside the school for students; and

- Any other property (including cash) or service specified by the public school.

Qualifying for a QZAB

In order to qualify for a QZAB, the applicant organization must meet the following terms:

1. A minimum of 95 percent of the proceeds of the issue must be used for qualified purposes;

2. The bond must be issued by a State or local government within whose jurisdiction in which the school is located;

3. The issuer must designate the bond for purposes of this provision;

4. The issuer must certify that it has written assurances that the private entity contribution requirement will be met with respect to the school; and

5. The term of the bond cannot be longer than the Secretary of the Treasury allows (based on a net present value of 50 percent of the face amount of the bond).

What is the tax treatment of the purchaser of these bonds?

Tax provisions regarding QZAB's include the following:

- An annual tax credit, allowable against regular and alternative minimum tax liabilities

- The credit rate is the rate for the date on which the bonds are sold. Credit rates and maximum maturities are announced daily on the Treasury web site: ***www.savingsbonds.gov/servelet/speqzab***

- The tax credit is treated as taxable interest income; and

- Any premium or discount on the bond will be treated as premium or discount on a taxable obligation.

Are these bonds transferable? YES

1. Taxpayers may transfer the bond to other taxpayers.

2. The credit is allowed to the taxpayer who holds the bond on the credit allowance date.

Benefits To Lenders Through The QZAB Program

The following example demonstrates the value to a lender by utilizing Qualified Zone Academy Bonds:

	Holding an 8% Taxable Bond	***Holding an 8% QZAB***
Taxable Income	$100 million	$100 million
Tax Liability	35%	35%
Bond Face Am't	$1,000,000	$1,000,000
Interest Income	$80,000 *(cash)*	$80,000 *(tax credit)*
Additional Tax Liability	$28,000	$28,000
Total Tax	$35,028,000	$34,948,000
Additional After Tax Income	$52,000	$52,000

Marysville School District
QZAB Success Story

VISION: The Marysville School District wanted to adopt an innovative literacy course to use throughout the school system wherever a reading problem was identified. The Superintendent and Assistant Superintendent needed to know what the course should look like and how to fund it.

CONNECTION: Government Financial Strategies Inc, Sacramento, California became familiar with the QZAB program and contacted the school district to discuss the possibilities.

PROCESS: Once a source of funding was located, a working group including the Superintendent's office, school board members, and Feather River State Bank, worked together to turn the vision into a reality.

LITERACY ACADEMY: This consists of a software/hardware utility that is fully accessible by the school district. The project entails a $1,600,000 software program, with $500,000 in computer hardware.

The QZAB program requires at least 10 percent from business entities. In this case the software designer, Electronic Education, sold a user license for a specific number of software programs. In order to make a $1,100,000 contribution match, Electronic Education expanded the license to an additional number of software programs.

Marysville School District
QZAB Success Story

FINANCING PACKAGE: The community worked together to put a QZAB financing package together. The results were:

- $2,100,000 loan
- 7 years
- Zero interest and zero discount points

The school district was able to deposit payments into a sinking fund for this loan, receiving a 2.5% interest rate. Over the life of the loan this will result in a reduction of payments by $200,000. In total there will be a $600,000 savings over the cost of conventional financing. This will result in a negative interest rate of 2.04%

How to Obtain QZAB Funding in Your Community:

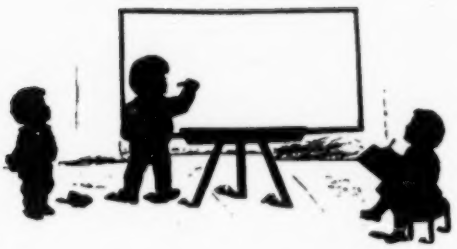
1. Organize your community's education, business and lending leaders to discuss creative projects to improve opportunities within the community;

2. Once a project is identified and cost estimated contact the Department of Education in your State to determine the process for obtaining approval for the utilization of QZABs in your project;

3. Contact the Rural Development Office serving your area. The internet site to locate that office in your State is on the first page of this handbook;

4. Contact your lender(s) to discuss the financing of the project with a QZAB.

The partnership between community leaders, Rural Development and your lenders should be able to construct a financing package to meet your needs.



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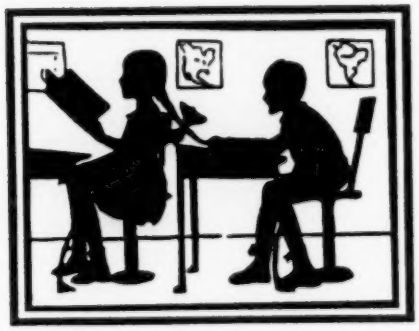

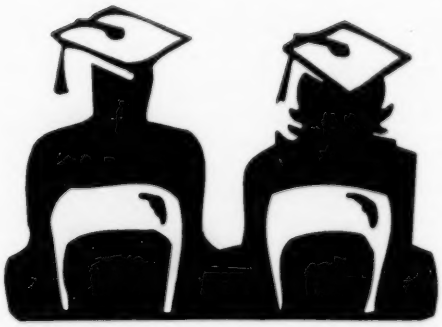

Examples of Projects
Community Facilities Programs

Cultural and Educational

- All Purpose Buildings/College Campuses
- Educational Camps for Physically & Mentally Disabled
- Libraries
- Museums
- Outdoor Theatres
- Public Schools
- School Maintenance & Equipment
- Vocational Schools
- Private Schools
- Charter Schools

Transportation

- Airports
- Airport Hangars
- Bridges
- City Airports
- Municipal & County Garages
- Off-street Parking
- Sidewalks
- Street Improvements
- Infrastructure for Industrial Parks
- Railroads
- Town Bus Service/Equipment
- Marinas
- Municipal Docks
- Special Transportation Equipment

Examples of Projects
Community Facilities Programs

Recreation:

- Parks
- Health Clubs
- Beach Areas
- Sports Activity Centers
- Ice & Hockey Rinks
- Camp Grounds
- Sports Arenas
- Lakes

Community Health Services

- Dental Clinics
- Nursing Homes
- Assisted-Living Facilities
- Physician's Clinics
- Boarding Homes for the Elderly
- Hospitals (General & Surgical)
- Medical Rehabilitation Centers
- Vocational Rehabilitation Centers
- Psychiatric Hospitals
- Outpatient Clinics

Community Support Services

- Adult Day Care
- Child Day Care
- Food Preparation Centers
- Food Storage & Distribution Centers

Examples of Projects
Community Facilities Programs

Public Buildings & Improvements

- City Halls
- Community Health Departments
- County Office Buildings
- Community Centers
- County Courthouses
- Courthouse Annexes
- Data Processing Centers
- Heating Plants for Public Buildings
- Homes for Delinquents
- Public Maintenance Buildings
- Community Centers

Utility

- Telemedicine/Distance Learning
- Natural Gas

Other

- Agricultural Fairgrounds
- Animal Shelters
- Dikes
- Oceanfront Protection
- Special Services Buildings
- Sprinkler Systems

Examples of Projects
Community Facilities Programs

Fire, Rescue & Public Safety

- Civil Defense Buildings
- Communication Centers
- Fire Department Buildings
- Fire Trucks
- Jails
- Mobile Communications Centers
- Multi-Service Fire/Rescue Buildings
- Police Stations
- Rescue & Ambulance Service Buildings
- Equipment Buildings
- Rescue Equipment such as Jaws of Life
- Early Warning Systems

Energy Transmission & Distribution

- Electric Equipment Maintenance Buildings
- Natural Gas Distribution Infrastructure

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